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# ECONOMIC NEWSLETTER

## Russian Research Center
## Harvard University

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### Economic Results for January 1989

Following the practice adopted in mid-1988, the Soviet statistical authorities have again decided not to publish the monthly statistics. Apparently they are available internally in the statistical agencies, but published only on a quarterly basis. If anyone knows of other sources for this material, we would be very grateful if you would help us find them. There is nothing to indicate, however, any signficant change in the direction of the production figures. Moreover, complaints continue to be published about shortages of consumer goods.

### Soviet Trade With Eastern Europe During the First Nine Months of 1988

What is particularly striking about the Soviet Union's trade with Eastern Europe during the first three quarters of 1988 was that the Soviets moved from being a net exporter to being a substantial net importer. This clearly is a consequence of *perestroika* and the Soviets' effort to obtain more machinery from Eastern Europe. Whereas Soviet exports to Eastern Europe dropped in ruble value by about 1 billion rubles, their imports from the bloc rose by about 400 million rubles. This is the first time this has happened in almost a decade. The only country to which the Soviet Union exports more to than it imports from is East Germany, and there it is only a difference of 5 million rubles which may be nothing more than a statistical blip.

There is indeed the implication that a continuation of this situation will lead to difficulties for the East Europeans. Undoubtedly, part of the explanation is due to the fact that the prices for petroleum and natural gas have dropped, but the fact that the Soviet Union has increased its imports in this way also suggests that the East Europeans are being pressured to supply more to the Soviet Union, and that clearly reduces the availability of East European goods for export to the hard currency bloc.

### 13th Annual Arden House Conference on American-Soviet Relations

Arden House is scheduled for March 31 - April 2, 1989. The conference weekend is fast approaching and while there are still a few seats available, if you are planning to register, do so without delay. The program promises to provide valuable insights into the new administration's approach toward the Soviet Union. We are very pleased with the panelists selected and are happy to note that Congressmen Aspin and Smith have indicated they expect to be in attendance for the entire weekend.

We are happy to accept registrations via fax. Our number is (617) 495-8319. If you have questions regarding the conference, contact Marshall Goldman or Catherine Reed at the Russian Research Center, (617) 495-4038.

For those who have already registered, please note that we will contact individuals who have signed up for the LaGuardia/Eastern Airlines bus with alternate arrangements, should the strike against Eastern Airlines continue. It is most likely that we would simply switch to the Pan Am shuttle, and we will let you know more as the date of the conference nears. Should the strike be settled, we will maintain the current arrangements.

We look forward to seeing you there.

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## SOVIET BALANCE OF TRADE WITH EASTERN EUROPE FOR THE 1ST NINE MONTHS OF 1981-1988

(in million rubles)

| | Exports from U.S.S.R. | | | | | | | | Imports to U.S.S.R. | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 |
| Bulgaria | 3225 | 3546 | 4141 | 4661 | 4788 | 4842 | 4644 | 4604 | 2751 | 3245 | 3720 | 4122 | 4425 | 4442 | 4856 | 4885 |
| Czecho-slovakia | 3108 | 3728 | 4270 | 4948 | 5002 | 5116 | 5032 | 4711 | 3060 | 3513 | 4018 | 4422 | 4806 | 4778 | 5035 | 5039 |
| GDR | 4037 | 4587 | 4992 | 5385 | 5619 | 5852 | 5582 | 5173 | 3861 | 4270 | 4879 | 5576 | 5619 | 5228 | 5173 | 5168 |
| Hungary | 2445 | 2711 | 2951 | 3298 | 3318 | 3486 | 3398 | 3265 | 2413 | 2710 | 2957 | 3178 | 3513 | 3600 | 3766 | 3598 |
| Poland | 3667 | 3581 | 3868 | 4450 | 4804 | 5091 | 4778 | 4592 | 2419 | 2882 | 3485 | 3843 | 3960 | 4316 | 4355 | 4936 |
| Romania | 1111 | 1013 | 1199 | 1352 | 1351 | 2062 | 1819 | 1766 | 1237 | 1323 | 1280 | 1340 | 1657 | 1859 | 1729 | 1771 |
| | 17593 | 19166 | 21421 | 24094 | 24882 | 26449 | 25253 | 24111 | 15741 | 17933 | 20339 | 22481 | 23980 | 24223 | 24914 | 25397 |
| Balance of Trade | +1852 | +1283 | +1082 | +1613 | +902 | +2226 | +339 | -1286 | | | | | | | | |

Los Angeles Times
Book Review

"In the noble West, where I used to live before I reached puberty, it was manly and virtuous not to tell people about yourself...But not in Mississippi. In the South, you were supposed to tell them. They held it against you if you didn't, because it meant you were trying to hide something." Page 9

# The Reds Are in the Red

**THE COMING SOVIET CRASH**
**Gorbachev's Desperate Pursuit of Credit in Western Financial Markets**
*by Judy Shelton*
*(The Free Press: $22.50; 238 pp.)*

**Reviewed by Marshall I. Goldman**

It is hard to disagree with Judy Shelton's conclusion when she writes that those who "aspire to become reputable members of the international financial community and the global economy . . . should not come begging for handouts. If they want to be accepted as trading partners, they should work to have something worthwhile to trade. If they want to acquire hard currency, they should concentrate on developing ways to earn it. There is more to superpower status than sheer military might." The casual reader might conclude that Shelton is referring to the United States and its trade and budget deficits. Instead, her subject is the Soviet Union. That may console the miserable—among us who like company, but it also highlights just how monumental Gorbachev's effort at economic reform must be.

Despite her sensationalist title, Shelton deserves credit for pointing out that the Soviet budget has been in the red for many years. Soviet assertions about a balanced budget to the contrary. She relies almost entirely on the work of Igor Birman, an emigre economist, who for years was not taken seriously by his Western colleagues. Now both he and she stand vindicated. This past November, Soviet authorities officially conceded that not only will this year's Soviet budget be in the red, but it has been in deficit for most of the past decade, with expenditures exceeding revenues by as much as 10% and probably more.

The printing of paper rubles to finance this deficit has given rise to inflation of about 7%-8%, which is now also officially acknowledged. In addition, because of the poor quality of Soviet goods, the Soviets have had a hard time finding customers for their exports. Consequently, they have turned more to the capitalist world to finance their foreign trade, their domestic budget, and, as Shelton argues, their military expenditures.

Certainly, one should be cautious in lending money to the Soviet Union, but

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Shelton is unduly an alarmist. The Soviets have indeed increased the size of their international debt, but in the last two decades or so, whenever this debt has increased, they have moved rapidly to shrink it. They are much more conservative and traditional about these matters than we are.

Shelton has been victimized by the occupational hazard facing all Sovietologists today. Gorbachev has been changing the Soviet economic system so rapidly that what looks to be firmly in place today may be gone tomorrow or nine months after the manuscript is sent off to the printing house. Thus the Soviets no longer insist that foreign partners in joint ventures must be limited to no more than 49% of the ownership in such ventures. Moreover, the tax holiday for joint ventures extends to the first two years when they are profitable, not just the first two years of operation. Also, the Ministry of Foreign Trade has been abolished. Most telling of all, by proposing a unilateral reduction of 500,000 troops and 50,000 tanks and calling for the transfer of resources from the military budget to the consumer goods industry, Gorbachev has begun to address some of Shelton's most telling criticism. Indeed, the Soviets have announced that military factories will produce 40% of the plumbing that is destined for its new apartment construction program. But Shelton was right to raise such challenges to Gorbachev, just as Gorbachev has increased his credibility by moving to address concerns of the type she has expressed.

To make her case, Shelton presents the Soviet Union and Gorbachev as overindulgent and spendthrift, and portrays Western bankers throwing money at the all-too-willing Gorbachev. That may describe some foreign bankers, but that is not true of American bankers. As Shelton herself points out, U.S. loans to the Soviet Union totaled a mere $257 million as of June, 1985. Yet, she writes that this total is "an 80% increase over six months earlier." The fact remains, however, that this is a relatively small amount. Granted, Soviet borrowing from the West has increased substantially since Gorbachev came to office, but even so, net foreign debt totals only an approximate $26 billion. When Shelton lumps together all Soviet bloc debt of about $100 billion, that indeed is something to worry about, but as we saw when Poland had a debt crisis, each East European tub stands on its own communist bottom.

Shelton makes some minor errors, such as the statement that the Chase Manhattan Bank opened its office in the 1960s after David Rockefeller's visit to Moscow, when in fact the office was opened in 1973. But her bigger problem is that some of her conclusions are not borne out by the facts. For example, she asserts that "imported goods do not use up Soviet resources." But even with loans, the Soviets have to export goods to pay for their imports, and petroleum and natural gas make up almost 80% of Soviet exports to the Western world. Paying for imports this way certainly does use up Soviet non-renewable resources and for that reason has been a source of considerable criticism inside the Soviet Union itself.

She also worries that granting the Soviets "Most Favored Nation" status will enhance the Soviet Union's ability to sell its goods here. While it certainly will help, even the Soviets acknowledge that it will not help much, largely because at any price, the Soviets have had a hard time producing goods that anyone wants. Nor would most observers agree that "the biggest threat to the continued global authority of the Soviet Union and its status as a working model of socialism is the massive budget deficit it is carrying." Saying that is like putting the cart before the troika. Gorbachev's challenge is to energize the economy, shift resources from the military to the civilian sector, increase civilian productivity and improve the standard of living of the Soviet people. The budget deficit is a factor, but it is only one of many and not the most significant for the Soviets or the outside world.

Whatever one's disagreements, Shelton's book serves an important purpose. She is correct to call for the increased monitoring of loans to the Soviet Union and most important, she forces us to focus on the question of what kind of Soviet Union we really want.

If she ever writes a sequel, I would urge her to ask another question: At what point in his reform process should we regard Gorbachev's reform as substantive rather than just cosmetic? Depending on the answer, it may be in our interest to facilitate, rather than frustrate his efforts. Gorbachev has backtracked some, and the Soviet Union is still a long way from becoming a democracy, but would Shelton not acknowledge that the Soviet Union is a more benign society (dare we say a "kinder, gentler nation"?) than it was four years ago? If so, the issue then is whether we want the Soviet Union to continue along this more promising road or whether, instead, we want it to fail? These are the tough questions and as of now Shelton provides us with no guidance. ■

*Goldman is the Class of 1919 Professor of Economics, Wellesley College, and the associate director, Russian Research Center of Harvard University. His most recent book is "Gorbachev's Challenge: Economic Reform in the Age of High Technology" (W. W. Norton).*

MN moscow news No. 9, 1989

# PAINFUL BUT NECESSARY

## What will be the effect of a convertible rouble

**Marshall I. GOLDMAN, a well-known American scientist, professor of economics, Associate Director of the Russian Research Center, Harvard University, joins in the discussion of this problem raised by the Soviet press, "MN" in particular.**

Making the rouble convertible is the most difficult challenge Soviet planners face. That is because convertibility must be accompanied by a meaningful reform of domestic and foreign prices as well as a revitalization of the Soviet production and innovation process. At the same time, these other reforms will quickly become meaningless without the ongoing discipline of convertibility. Thus, making the rouble convertible is equivalent to achieving perestroika itself.

Convertibility provides an instant measure of how Soviet industry compares with industry elsewhere in the world. At a given dollar to yen exchange rate, we in the United States know when our computers are a better purchase than those made in Japan. When our computers are more competitive, we can take the dollars earned from selling those computers and buy yen to pay for their cameras. If we find that we cannot earn enough yen to pay for our imports, that tells us that we must either make better computers or stop buying so many cameras. Admittedly, convertibility does not always result in the perfect allocation of goods, but economic efficiency almost always suffers when there is no convertibility.

If convertibility makes so much sense, why is the Soviet Union moving so slowly to bring it about? The reason is that introducing convertibility can be very painful and disruptive, especially when economic relationships and Soviet productivity have become as distorted as they have over the last seventy years. Soviet enterprise managers did not have to worry about whether or not their machinery was as good as that in West Germany or France, because they did not have to compete for customers either inside or outside the Soviet Union. Soviet industry began to fall farther behind the technology standards of the rest of the world. The larger the gap, the more disruptive the necessary adjustment is likely to be.

Regardless of the difficulty, it has become clear that the Soviet Union must move towards convertibility. The first task is to make Soviet domestic prices more meaningful and equally important, to make the rouble convertible within the Soviet Union itself. Even if a Soviet citizen has roubles today, there is no guarantee that those roubles will buy either consumer goods or machinery. In some cases, goods like meat are rationed or unavailable in state stores. Similarly, if a Soviet factory wants to acquire machinery, it is more important to have an authorization from the State Planning Committee than extra roubles. The reason for such allocation and rationing measures is that many goods are in such short supply, and to let them sell at a price which would eliminate the lines would mean prices that would be too high for the poor. Yet these goods will always be in short supply as long as their low prices are subsidized and prevented from balancing out demand and supply.

This same lack of convertibility exists for roubles in relation to foreign products and currencies. There are not enough foreign goods or currencies to satisfy those with the roubles to spend. Thus, out of necessity, foreign imports are allocated by foreign trade officials or the State Planning Committee and not by the price which the highest bidders are willing to pay. In effect the prices of foreign goods expressed in roubles are too cheap.

There are various ways to end this shortage. One way is to raise the price of foreign goods or the price of foreign currencies relative to the rouble. Some have predicted that it would be necessary to have a rate as high as 6 roubles to the dollar rather than 60 kopeks to the dollar as is the case now. That may be as hard on the Soviet national ego as the fall in the value of the dollar was for us. If the price of the rouble relative to the dollar is decreased, that in turn lowers the price of Soviet goods for American cans and will make Americans more eager to buy Soviet goods. If at the same time Soviet producers are told that they can keep all the dollars they earn for themselves (not just a small percentage), that will make them work harder to find goods to export and make those goods more attractive and competitive. If there is more to buy, then foreigners will want to obtain roubles and pay a higher price for them. Remember as of now, it is illegal for foreigners to hold roubles outside the Soviet Union, which, of course, pushes the price of the rouble down and is the opposite of what is supposed to happen in convertibility.

It should be clear why the move to convertibility is likely to be so traumatic. For Soviet buyers, the prices of both Soviet and imported goods will have to be revised radically, mostly upward. At the same time, despite their higher prices, there will be a rush to buy imported goods. Many Soviet enterprises will encounter foreign competition. As we discovered in the United States, those factory managers who accept the challenge will seek to lower prices and increase quality. For those who cannot respond, however, it will mean fewer sales and bankruptcy. A drop in the value of the rouble will also make rouble earnings of joint ventures inside the Soviet Union less attractive and lead to fewer joint ventures.

Allowing the freer exchange of roubles for other currencies has to be approached with great care.

The recent decision to conduct an auction among those Soviet enterprises seeking to buy other currencies is a good first step. But holding one auction every four months is not enough. Moreover, foreigners must be allowed to join in the auction, even if at first this increases the downward pressure on the rouble to dollar ratio. Foreigners will only increase their holdings of roubles when they know that they can sell roubles legally and readily. All too often, bold steps in the Soviet Union, like the establishment of rouble currency auctions or joint ventures, are flawed by an initial unwillingness to go far enough. Only later is it decided to allow foreigners to own more than 49 per cent share in a joint venture or to participate in the currency auction. Not only does this reduce the potential gain from such basically sound reforms, but such halfway measures create a sense of confusion and contradiction in the outside world about how effective the reform will be.

The move towards convertibility is absolutely essential if the Soviet Union wants to become economically competitive. But that may mean inflation, unemployment and economic disruption. But it is hard to see what other alternative there is. In the mid- and late 1970s, the Soviet Union spent approximately one billion US dollars a year on foreign machinery, but because this machinery was implanted on an economy cut off from the rest of the world and operated in an arbitrary fashion, much of this investment was never profitably utilized. Today, with perestroika, there is reason to anticipate that this time the result will be more fruitful. But that will be so only if the reform process is carried out to its logical end and for that the Soviet people have to be very supportive and patient.

SUNDAY, MARCH 5, 1989 The Washington Post

# OUTLOOK

*Commentary and Opinion*

# A Secret Soviet Disaster?

## *Chernobyl May Not Be Their Only Radiation Mess*

By Gabriel Schoenfeld

MIKHAIL GORBACHEV visited Chernobyl for the first time last month, telling the Soviet people from that still-stricken city in the Ukraine that "it's unlikely that we could live without nuclear power." Gorbachev's support for the Soviet program comes in the face of criticism of nuclear power by what The Washington Post described as "a growing number of environmental groups [in the Soviet Union] and by the Soviet press."

Chernobyl, the site of the worst-ever nuclear power disaster, has received a great deal of attention. But heed should also be taken of a radiation problem in the Soviet Union that has received almost no attention in the West, the consequences of which may be staggering.

Details of the Soviets' environmental problems are coming from recent emigrés who have been interviewed by the staff of Radio Liberty, a Munich-based broadcast service directed at the Soviet Union. Though there is circumstantial corroborating evidence, thus far there has been no independent means of verifying these particular accounts. If true, however, these reports suggest that something has gone terribly awry in the Soviet processing and handling of radioactive materials.

Soviet physicians, veterinarians, geologists and ordinary citizens report the existence of a major health crisis that stems from unsafe uranium mining, processing and waste-disposal techniques, and possibly from radiation leaks associated with Soviet nuclear weapons manufacturing, storage and testing. The reports also suggest that fruit, vegetables and livestock grown in areas affected by radiation continue to be sold in various locations in the Soviet Union.

Some of the accounts further suggest that the Soviet Ministry of Health and the KGB have been engaged in an effort to cover up the health consequences of the widespread radiation exposure from the Chernobyl nuclear accident.

A geologist from Ust-Kamenogorsk, a city not far from the Soviets' main nuclear-weapons test site at Semipalatinsk, reports that in the Central Asian republic of Kazakhstan "the population is exposed to heavy doses of radiation due to the concentration of both underground and open-pit uranium mines, uranium-enrichment plants, nuclear missiles and stocks of nuclear weapons." According to him, the civilian population and the prison-camp inmates who live in the area "are suffering from radiation sickness."

A veterinarian from Kurgan, a West Siberian city, reports that the sheep with which he worked were developing growths in their necks and glands. Although samples of the growths sent to a laboratory for analysis were officially determined to be benign, the veterinarian recounts that "unofficially, however, a friend working in the *oblast* [an administrative subdivision] veterinary administration warned me not to eat meat from these sheep since the growths were the result of radiation. The radiation in the oblast is much higher than normal and the grass eaten by the sheep is radioactive. These sheep, however, continue to be slaughtered and the meat sold to the unwary population."

A wide variety of reports from emigré doctors not only point to a problem with radioactive pollution, but also to secret orders banning mention of radiation-related illness. Some of these doctors attribute the illness to the aftermath of the Chernobyl nuclear accident and others to the processing of uranium.

An ophthalmologist from Karaganda, a city in Kazakhstan near the Soviet nuclear weapons testing area, reports that "radioactive dust settles in houses and on food and

Assessing the accuracy of such reports is impossible. The doctor in charge of Byelorussia's newly created radiological-medicine research institute has now confirmed, however, that radioactive produce is being brought to market in some locations. In a recent interview published in the Soviet press, he warned that "many people think that everything is okay, that one can eat and do as one pleases. This impression is very mistaken." Whatever the source of the radiation—Chernobyl, the military or industry—accounts of contaminated foodstuffs on sale to the public can no longer be dismissed as purely speculative.

Evidence tending to corroborate the emigré reports also comes from the 1985 Central Intelligence Agency's USSR Energy Atlas. According to the atlas, the great bulk of the Soviet uranium mining and processing industry is located near cities in Central Asia where the problem is said to exist. It is also highly suggestive that a team of Soviet doctors inquiring into gynecological problems afflicting large numbers of Central Asia women submitted the "biological materials" that it had gathered to Uzbekistan's Institute of Nuclear Physics for analysis. The findings of this institute have not been disclosed.

Given that open-pit uranium mining generally extracts a rather low grade of uranium, it is likely that the health problems mentioned in these reports stem not from the extraction process but largely from the processing and waste-disposal phases of uranium production, areas in which the United States has also met with difficulties.

It is also possible that the etiology of the reported health disorders involves exposure to other harmful, non-radioactive particles stirred into the atmosphere by uranium mining and processing or other unrelated industries. The possibility cannot be ruled out, of course, that some of the recent emigré reports are based on unsubstantiated rumors arising from the Chernobyl accident, but the problems that other countries have faced in controlling radiation lend credibility to these new accounts.

Even the United States, despite its strict regulations and controls, has had serious safety problems both in its uranium industry and in the production of nuclear weapons. For example, until the practice was curtailed in 1966, a refinery in Grand Junction, Colo., magnanimously donated 50,000 tons of radioactive uranium tailings to building contractors for use as a filler in the construction of thousands of homes and buildings. In the 1960s, uranium-mill byproducts were discharged into the water of streams and rivers used for irrigation, resulting in the radioactive contamination of food in parts of the American southwest. Pollution and safety problems associated with nuclear weapons manufacturing are now the urgent concern of the Department of Energy.

Considering our own unimpressive history in this area, as well as the pressures for lax environmental safety standards and practices in centrally-planned economies, it is not surprising that the Soviet Union faces similar or even more serious shortcomings. The Soviet Union has in the past shown a lack of respect for the dangers bound up in the atom. More than a decade ago, one Soviet spokesmen cavalierly declared that the problem of low and medium radioactive waste disposal is "regarded as solved in the Soviet Union." Another Soviet specialist has advocated siting nuclear-power stations near lakes because raising their water temperature by a few degrees "would be beneficial to the fishing industry, and would make life pleasanter for the people living in the vicinity."

Even before Chernobyl, Soviet planners seem not to have always coped well with radiation. Zhores Medvedev's claim that a nuclear catastrophe occurred in the Urals in 1957 has been evaluated by scientists at the Los Alamos National Laboratory. The open portions of their classified report indicate that in the late 1940s and 1950s, radioactive water from a plutonium processing plant was pumped into a holding pond that emptied directly into the Techa River, with deadly consequences for agriculture and human health.

The report also suggests that in the late 1950s, radiation pollution in this part of the Urals was increased dramatically when a pond used for the disposal of radioactive wastes evaporated, "leaving a layer of intensely radioactive crud attached to fine, red clay particles." Spring winds in the region that typically reach 60 miles an hour may have swept these particles into the atmosphere in radioactive dust storms. The dried-out pond was cleaned up in the early 1960s by prisoners who received generous reductions on their 10-to-15-year sentences (and on their life-expectancies) for volunteering to help cover the area with a layer of sand.

Even now after the Chernobyl accident, irrefutable evidence exists of continuing recklessness with nuclear materials in the Soviet Union. The Latvian newspaper *Sovetskaia Latviia* recently made the sensational admission that an ampule containing a radioactive substance was carelessly discarded in a Krasnoyarsk schoolyard, leading the local population to demand that the school be closed and the food in its cafeteria be destroyed. The newspaper further reports that at least two other similar incidents have occurred elsewhere in the Soviet Union. Moscow News has also reported that geologists carrying out "radiation monitoring" near the town of Mytischi in the Moscow oblast recently discovered gloves contaminated with radiation that had been tossed into a public toilet, resulting in the creation of what the article characterized as "four anomalous points, each several square meters in size." Why radiation monitoring was being carried out in this area in the first place has not been disclosed.

More than 15 years ago, Marshall Goldman forecast in his book, "The Spoils of Progress," that the health problems associated with radiation pollution in the Soviet Union "may become an urgent concern" as the nation increases its reliance on nuclear energy for both civilian and military purposes. While a small but growing number of emigré accounts cannot be said to provide definitive evidence that a widespread Soviet radiation catastrophe unrelated to Chernobyl exists, they certainly suggest that something may be amiss.

Over the past decades Sovietologists and other experts have had to pay a high price in lost time and knowledge for dismissing emigré accounts of Soviet life out of hand. Medvedev's revelation of a nuclear disaster in the Urals was initially derided as "rubbish" by Britain's highest-ranking atomic-energy official, and even now the Soviet Union stubbornly denies that anything occurred there. Accounts of deformities among livestock and wild animals as a consequence of Chernobyl that had been met with a dismissive skepticism are now being confirmed by the Soviet press.

These current reports from Soviet emigré doctors, veterinarians and geologists should not therefore be disregarded. At the very least, this is an area that bears close watching for further evidence of a widespread environmental peril in the Soviet Union.